



Statement of NCUA Chairman JoAnn Johnson
on the Final Rule Amending Part 708b
Mergers of Federally Insured Credit Unions;
Voluntary Termination or Conversion of Insured Status

By law, when a credit union decides to pursue a conversion from federal to private share insurance, the decision to convert must be approved by an affirmative vote of the credit union's members. In recent years we at NCUA have been alarmed by the communications that we have seen made to the members of converting credit unions as they prepare to vote. These communications have not always been complete and accurate. With this rulemaking, we are attempting to remedy that.

First, we want the credit union to disclose to its members that the National Credit Union Share Insurance Fund has the backing of the full faith and credit of the United States Government, as both the United States Congress and federal courts have made clear. In addition, we want the credit union to disclose to its members that if the credit union converts and subsequently fails, the federal government does not guarantee the members will get their money back. It is the same disclosure language that Congress requires credit unions who are already privately insured to give their members on a periodic basis. Members should have access to this information prior to voting on such a conversion, not just after the fact. Furthermore, we want any additional information the credit union provides its members, beyond our required disclosures, to be factually correct and not misleading in any way.

We also want to protect those members of a converting credit union who do not want to give up their federal insurance. We know there are members who may not want to be forced into a private insurance situation. This rule allows those members to withdraw their federally insured funds without penalty, should the conversion take place.

We issued a proposed rule for public comment in July, 2004. We received public comments, both for and against the rule. In response to the comments, we made several changes in the final rule to clarify it and to reduce the burden of the rule on credit unions. For example, in the proposed rule we were requiring prior approval by NCUA of certain communications about conversion to private insurance. The final rule eliminates this preapproval requirement so as not to be an unnecessary burden on credit unions. The rule still requires converting credit unions to convey a copy of their communications to the

NCUA. We will look at these communications, and if they are false or misleading, we will take appropriate action to protect the members, which could include disapproving the conversion.

Congress, through the Federal Credit Union Act, gives NCUA the authority and responsibility to approve any conversion to privately insured status. This rule in no way detracts from the authority of state regulators. The rule requires that the converting credit union consult with state regulators and, if state law requires, that the converting credit union obtain the approval of state regulators.

In conclusion, this rule is good for members and, because it is good for members, it is good for their credit unions. I fully support the rule and plan to vote in favor of it.